The Food Stamp Program After Welfare Reform

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) dramatically changed Federal welfare policy. The Act eliminated the entitlement program Aid to Families with Dependent Children (AFDC), replacing it with a fixed block grant that gave States the fundamental role of helping poor families and that added new work requirements for recipients. PRWORA ended eligibility for many aliens and placed time limits on benefits for able-bodied, childless adults. The Congressional Budget Office estimated the savings to the Federal Government to be $54.2 billion through 2002.

About half of the expenditure cuts directly affect food stamps, now the only Federal entitlement, except for Medicaid, available to all low-income households. Lower transfer payments lead low-income households to reduce their food expenditures, change the types of food consumed, and reduce their expenditures on other goods. Lower food expenditures and changing patterns of food consumption, particularly for children, may have significant effects on nutrition and long-term consequences for cognitive development, medical outlays, and productivity losses.

This study focuses on three interrelated economic phenomena: the implications of decreasing food stamp benefits on food production and consumption and the general economy; the effect of changes in the macroeconomic environment on poverty, Food Stamp Program participation, and budget outlays for food stamps; and the potential for State governments to shift the burden of supporting the poor to the Food Stamp Program, thereby putting greater emphasis on the Food Stamp Program as a social safety net.

The Food Stamp Program

Federal spending on food stamps has traditionally exceeded Federal expenditures on both AFDC and housing assistance programs. The Federal Government funds the benefits under the Food Stamp Program but shares costs to administer the program with State and local governments.

To participate in the Food Stamp Program, households must meet eligibility requirements based on citizenship, income, and asset ownership. Gross monthly income of most households cannot exceed 130 percent of the Federal poverty guidelines, which, in 1998, defined the poverty threshold for a family of three (single parent and two children) as $1,445 per month. Another eligibility requirement states that households may have no more than $2,000 in assets ($3,000 if at least one member of the household is age 60 or older). The home, however, is not counted as an asset.

The maximum value of food stamps a household receives varies by household size and is adjusted annually for changes in the cost of the Thrifty Food Plan. Because households are assumed to spend about 30 percent of their income on food, a household's food stamp allotment is equal to the maximum allotment for that household's size, minus 30 percent of the household's net income. In 1996 the average food stamp household received a monthly food stamp benefit of $174 and had an average of 2.5 people in the household.

The characteristics of households receiving food stamps vary. In 1996, 60 percent of food stamp households had children, 20 percent had disabled persons, and 16 percent had elderly persons. About 60 percent of the children were school-age, and over two-thirds of the adults were women. Over 90 percent of the food stamp households lived in poverty, and most food stamp households with children were headed by a single parent receiving support from TANF—Temporary Assistance to Needy Families Program.[1] About one-quarter of food stamp households had earned income.

For the average food stamp household headed by a single female with two children, food stamps accounted for about 25 percent of the family's household resources. If the nominal dollar value of food stamp benefits is added to income, the distribution of poverty status among food stamp recipients differs significantly (table).

PRWORA stipulated that by 1997, 25 percent of the single-parent families receiving TANF benefits must work at least 20 hours a week, and, by 2002, 50 percent must work at least 30 hours a week. For two-parent families, 90 percent must work a combined 35 hours a week by 1999. If States do not meet these requirements, their grant from the Federal Government will be cut each year—providing States with an impetus to move families into the workplace and off welfare. Under TANF, recipient

[1]Under the block-grant structure of TANF, every State is given a fixed sum of Federal money (based on recent spending levels for AFDC) and, with a wide latitude, the States are free to design how to provide this assistance. For example, instead of cash assistance, States can use funds to set up job training programs to give recipients skills to enter the work force.

Effect of food stamp benefits on poverty, 1995

Gross income as a percentage of the poverty threshold	Distribution of household income relative to poverty threshold: Without food stamps	Food stamps included as income	Percent change
<50%	42	19	-23
50-100%	50	66	16
>100%	9	15	6

Source: U.S. Department of Agriculture, 1998.

families can receive benefits funded by Federal monies for a lifetime total of only 5 years. PRWORA cut more funds from the Food Stamp Program than any other program: through reductions in household benefits and restrictions in eligibility. Expenditures for the Food Stamp Program are projected to decline by about $22 billion between 1997 and 2002. However, because the Food Stamp Program was not placed under block-granting authority, the program's entitlement status was retained and the national nutritional safety net was preserved.

Effect of Cuts in Federal Assistance

The net effect of the new law is to decrease significantly outlays for food stamps. Reductions in food stamp benefits will cause low-income families to decrease spending on food and other goods such as housing, clothing, and medical care. The economic effects of cuts in food stamp benefits are not limited to the production and consumption of food but ripple throughout the economy.

The effects of decreasing government transfers to low-income households on food production and consumption, and on the general economy, are estimated in two complementary general equilibrium studies. The studies focus on how changes in relative sectoral profitability affect changes in output, returns, and the flow of resources into and out of the farm sector.

One model simulates the effects on economywide output and employment from reducing Food Stamp Program benefits. Starting from a 1993 base, the model simulates economywide adjustments, given a $4-billion annual average decline in the Food Stamp Program for 5 years. Although all of the food stamps are spent on food, funds previously spent on food are reallocated to other needs, such as housing, clothing, or medicare. This marginal propensity to consume out of food stamps (called the supplementation effect) implies that the initial effect of a $23-billion decrease in Food Stamp Program benefits would be a decline of $5 to $10 billion over 6 years in retail food spending and a decline of $18 to $13 billion over 6 years in nonfood spending.

According to this model, the new welfare legislation may affect the agricultural sector and the general economy in the following ways:

- Retail food spending would decrease;
- Demand for agricultural commodities would decrease;
- Commodity prices and farm income would decrease;
- Capital and labor would be reallocated to nonfood sectors.

In the short run, the economywide effects would be negative. But, if the reduced government expenditures for transfer payments to low-income families are injected back into the economy as a tax cut, the short-term effects are mitigated.

A second model simulates the combined effects of cutting transfer payments and reducing the taxation of capital by decreasing the tax on capital gains. Cutting transfer payments proportionally across all income classes by $10 billion—while increasing the capital gains exclusion—draws resources into food production, leading to lower prices and an increased consumption of goods and services by all income classes. Proportionally redistributing the budget shortfall over all income classes to offset the tax reduction still leaves sufficient income to increase consumption: expenditures for food, housing, and transportation increase by nearly $1.5 billion. Food expenditures alone increase by $535 million. Restoring a 30-percent capital gains exclusion increases national welfare by about $800 million.

Economic Cycles and the Social Safety Net

Post World War II legislation, such as The Employment Act of 1946, committed the Federal Government to manage overtly the macroeconomy by using welfare as a social safety net during cyclical economic downturns. PRWORA eliminated the entitlement status of welfare benefits. States, therefore, are not obligated to expand programs in times of greatest need. Since funding is primarily through capped block grants to the States, spending for welfare is unlikely to increase when programs need to expand during economic downturns. Hence, it is likely that the Food Stamp Program will become more important as a cyclical safety net.

During a recession, unemployment rates rise and real wages fall. For the average household, the amount of money available for food drops. Food stamps alleviate the situation as more families become eligible—and current recipients qualify for additional food stamps. It is possible, however, for the number of poor to increase without observing an increase in the number of food stamp recipients or for the number of poor to remain constant while observing an increase in the number of food stamp recipients. These changes may occur because not all poor persons qualify for food stamps, and all people below the poverty threshold meet the income test but may not meet the asset test. Also, about 30 to 40 percent of families eligible for food stamps choose not to participate in the program.

The effects of changing macroeconomic conditions on food stamp participation and poverty were estimated. The effect of a 1-percentage point increase in the unemployment rate (combined with a 0.07-percentage point decline in the inflation rate) led to a 0.29-percentage point increase in the food stamp participation rate and a 0.32-percentage point increase in the poverty rate after 1 year. Other simulations illustrate the effects of a mild recession, a more severe recession, and a continued robust economy for the years 1997-2004. Overall, outlays for food stamps increase in each situation because of the trend effects of the number of people in poverty—and the increase occurs most slowly in the case of a continued robust economy.

Since 1992 the growth rate has not been negative during any quarter, and welfare caseloads in every State have declined sharply. The President's Council of Economic Advisors found that 44 percent of the decline was due to economic expansion, and 31 percent was due to changes in the States' welfare programs. Other studies attribute an even higher proportion to economic expansion.

The number of food stamp recipients declined from 25.9 million in January 1996 to 19.3 million in June 1998. Because the U.S. Department of Health and Human Services has determined that 90 percent of AFDC/TANF recipients are also food stamp recipients and families tend to move on and off multiple welfare programs, the decline in food stamp participation must be attributed to both welfare reform and the economic expansion.

If welfare reform has produced permanent changes in welfare caseloads, the effect of future recessions on the rates of food stamp participation will be mitigated. However, if the recent decline in food stamp participation is due primarily to economic expansion, the decline is temporary. Then during the next recession, the rates of food stamp participation will increase (following historical patterns). As families are forced off TANF because of the expiration of time limits and enter a contracting labor market, incomes will fall and food stamp benefits will increase. Also, if States transfer funds from cash to noncash assistance programs, such as subsidized day care, the income of TANF recipients will fall—leading to an increase in food stamp benefits.

Fiscal Effect of Block Grants

The 5-year time limit on TANF benefits will eventually force a number of welfare recipients off the TANF welfare program. Unless their TANF income is replaced with wage income, the recipients' net income will decrease, and their food stamp allotment will increase. Also, State welfare programs that shift money away from direct cash assistance (to noncash support such as child-care vouchers, transportation subsidies, and educational programs) will increase the pressure on the Food Stamp Program. Food stamps are a fairly close substitute for cash assistance and 100 percent financed by the Federal Government.

Have State legislatures allowed federally financed food stamp benefits and federally subsidized Medicaid benefits to substitute for AFDC/TANF? No definitive estimate of the effect of block grants on State cash welfare expenditures is possible as yet. A review of literature, however, indicates that "on average State governments will reduce overall spending on AFDC/TANF and Medicaid by approximately 30 percent." Food stamp spending would increase accordingly.

Conclusions

The reform of the U.S. welfare system is having far-reaching effects on the Food Stamp Program. Lower transfer payments lead to reduced expenditures on food, changes in the types of food consumed, and reduced expenditures on other goods by low-income households. The potential economic effects of the new welfare legislation on the agricultural sector and the general economy depend on the size of the reduction in benefits and the form of the program.

Substantial changes in incentives and the structure of the welfare program will increase the prominence of the Food Stamp Program as a cyclical social safety net. Passage of the PRWORA left the Food Stamp Program as one of the only remaining entitlement programs available to almost all low-income households.

Source: Gundersen, C., LeBlanc, M., and Kuhn, B., 1999, *The Changing Food Assistance Landscape: The Food Stamp Program in a Post-Welfare Reform Environment,* U.S. Department of Agriculture, Economic Research Service, Agricultural Economic Report No. 773.